85-780

Supreme Court, U.S.
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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

TIFFANY INDUSTRIES, INC.,
Petitioner,

vs.

ALEXANDER GRANT & COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

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QUESTIONS PRESENTED FOR REVIEW

1. Whether allegations of an isolated scheme by company officials for the purpose of obtaining a favorable year-end audit of the company's financial statements, which involved more than two predicate acts of mail and wire fraud but which lacked a threat of continuity, constitutes the conduct of an enterprise through a "pattern of racketeering activity" for purposes of a violation of 18 U.S.C. § 1962(c)?

2. Whether an auditor's alleged claims for fees left unpaid after reporting the client to the SEC, for legal and other expenses incurred in defending its own professional conduct to the SEC, and for the resultant loss of business reputation are injuries proximately caused by the "conduct causing the violation" as the Supreme Court required in *Sedima* for standing to sue under 18 U.S.C. § 1964(c)?

PARTIES TO THE ACTION

Petitioner, defendant below, is Tiffany Industries, Inc., a publicly-held company which manufactures office furniture and exports grain-handling and storage equipment. Petitioner's subsidiaries and affiliates are listed in the Appendix (App. A-51). Farrell Kahn and Gail Martin were also defendants below.

Respondent, plaintiff below, is Alexander Grant & Company, a partnership engaged nationally in public accounting

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No.

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TIFFANY INDUSTRIES, INC.,
Petitioner,

vs.

ALEXANDER GRANT & COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

Petitioner, Tiffany Industries, Inc. respectfully requests that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Eighth Circuit entered August 7, 1985.

OPINIONS BELOW

The Opinion of the United States Court of Appeals for the Eighth Circuit dated August 7, 1985 is not yet reported and is reprinted in the Appendix (App. A-1). The Opinion of the United States Court of Appeals for the Eighth Circuit dated August 22, 1984 is reported at 742 F.2d 408 (8th Cir. 1984) and is reprinted in the Appendix (App. A-6).

JURISDICTION

The United States Court of Appeals for the Eighth Circuit entered judgment on August 7, 1985. Jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

STATUTES INVOLVED

The Racketeer Influenced and Corrupt Organizations Act ("RICO"), 18 U.S.C. §§1961 - 68 is reprinted in the Appendix (App. A-39).

Section 1961(5) of that act provides:

> "pattern of racketeering activity" requires at least two acts of racketeering activity, one of which occurred after the effective date of this chapter and the last of which occurred within ten years (excluding any period of imprisonment) after the commission of a prior act of racketeering activity;

Section 1964(c) of that act provides:

> Any person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor in any appropriate United States District Court and shall recover threefold the damages he sustains and the cost of the suit, including a reasonable attorney's fee.

STATEMENT OF THE CASE

Alexander Grant & Company ("Grant") brought suit against Tiffany Industries, Inc. ("Tiffany"), and two of its employees in February, 1979, alleging a civil violation of the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. § 1964(c). The RICO claim was predicated on allegations of Tiffany's use of the mail or the telephone to justify accounting entries claimed to be fraudulent. 18 U.S.C. § 1341, 1343. The communications, according to the complaint, were part of a single fraudulent scheme to obtain a favorable year-end audit of Tiffany's 1977 financial statements. Grant discovered and, later, disclosed the scheme. Grant sought treble damages for past due accounting fees, injury to reputation and legal and other expenses incurred.

On Petitioner's motion, the District Court dismissed the action on December 30, 1982 for failure to allege an injury of the type redressable under RICO. The District Court followed the reasoning of the Seventh Circuit in *Cenco, Inc. v. Seidman & Seidman,* 686 F.2d 449 (7th Cir.) *cert. denied,* 459 U.S. 880 (1982), a case described by the District Court as "strikingly similar to the facts in this matter", which held that the objectives and purpose of RICO would not be served by permitting the action. (App. A-20). On August 22, 1984, the District Court's decision was reversed by the Eighth Circuit Court of Appeals which held that Grant had alleged an injury within the meaning of 18 U.S.C. § 1964(c). On October 31, 1984, the Eighth Circuit denied Tiffany's petition for rehearing.

Tiffany filed its petition for certiorari on January 3, 1985, and requested that this Court review the Eighth Circuit's judgment of August 22, 1984. On July 2, 1985, immediately after this Court's decisions in *Sedima, S.P.R.L. v. Imrex, Co.,* 473 U.S. ____, 53 U.S.L.W. 5034 (U.S. July 1, 1985) and *American National Bank v. Haroco, Inc.,* 473 U.S. ____, 53 U.S.L.W.

5067 (U.S. July 1, 1985), Tiffany's petition for certiorari was granted and the Eighth Circuit's judgment vacated. 53 U.S.L.W. 3914 (U.S. July 2, 1985). The case was remanded to the Eighth Circuit with instructions "for further consideration in light of *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. ____ (1985) and *American National Bank v. Haroco, Inc.*, 473 U.S. ____ (1985)."

On August 7, 1985, the Eighth Circuit issued its second decision in this case, upholding the previous result and finding that the appellant Alexander Grant & Company had standing to sue under 18 U.S.C. § 1964(c). Tiffany now seeks review of the August 7, 1985 judgment of the United States Court of Appeals for the Eighth Circuit.

REASONS FOR GRANTING THE WRIT

Immediately following the *Sedima* and *American National Bank* decisions Tiffany's petition for a writ of certiorari to review the August 22, 1984 judgment of the United States Court of Appeals for the Eighth Circuit was granted on July 2, 1985. The Order granting certiorari vacated the Eighth Circuit judgment and remanded for "further consideration in light of *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. ____ (1985) and *American National Bank v. Haroco, Inc.*, 473 U.S. ____ (1985)." 53 U.S.L.W. 3914 (U.S. July 2, 1985).

The Eighth Circuit issued a new decision August 7, 1985 which upheld that Court's prior result though eliminated its previous "something more" than injury from predicate acts standing requirement. However, the Eighth Circuit failed to adhere to the Supreme Court's guidance on the meaning of a "pattern of racketeering activity" and the requirement of proximate causation between the violative conduct and the alleged injury.

Due to the failure of the Eighth Circuit to follow this Court's specific direction to reconsider its prior holding in light of *Sedima* and *American National Bank,* Tiffany and other litigants within the Eighth Circuit are extremely prejudiced. This case and these issues are therefore ripe for review.

I.

The Eighth Circuit Has Failed To Follow The Guidance Of This Court's Decisions In Sedima and American National Bank.

A. The Meaning Of A Pattern Of Racketeering Activity.

In *Sedima,* this Court examined the meaning of the term "pattern" in the context of describing the elements of a violation of 18 U.S.C. § 1962(c). The Court stated:

> A violation of § 1962(c)...requires (1) conduct (2) of an enterprise (3) through a pattern[14] (4) of racketeering activity.

The now famous footnote fourteen pointed out that the definition of a pattern of racketeering activity differs from other defined terms in § 1961 in that a pattern "*requires* at least two acts of racketeering activity," not that it "means" two such acts. From this distinction, this Court determined "...that while two acts are necessary, they may not be sufficient." (emphasis added by the Court). *Sedima, supra,* 53 U.S.L.W. at 5038, n.14.

In determining what would constitute the necessary pattern, the Court focused on directions provided in the legislative history and quoted from the Senate Report on RICO as follows:

> The target of [RICO] is thus not sporadic activity. The infiltration of legitimate business normally requires more than one 'racketeering activity' and the threat of continuing activity to be effective. It is this factor of *continuity plus relationship* which combines to produce a pattern. S. Rep. No. 91-617, p. 158 (1969) (emphasis added by the Court).

Id.

The Supreme Court's discussion of the meaning of a pattern of racketeering activity emphasized that isolated, sporadic acts of racketeering with no threat of continuity were not sufficient to constitute a pattern, and were not intended by the drafters of RICO to be punished by the statute's civil remedy, 18 U.S.C. § 1964(c).

The explanation and guidance on the meaning of pattern provided by the Supreme Court was not followed by the Eighth Circuit upon remand of this case. Rather, the Eighth Circuit held that the multiple acts of mail and wire fraud allegedly committed in the furtherance of an alleged isolated scheme to defraud

auditors into certifying inflated 1977 year-end financial statements were sufficient to constitute the necessary pattern. *Alexander Grant v. Tiffany Industries, Inc.*, No. 83-1608 Slip Op. at 3, n.1. (8th Cir. August 7, 1985). Completely absent from the Eighth Circuit's analysis of the concept of pattern was any discussion of the threat of continuity of the racketeering behavior. The allegations of Grant's complaint speak of a single fraudulent scheme and make no mention of a threat of a continuing pattern of racketeering activities. Complaint, ¶¶ 12-14.

Under the Eighth Circuit's analysis, isolated activity such as multiple mailings of a single fraudulent or misleading prospectus which might lead to several purchases of the same security would constitute a pattern of racketeering activity. Though such mailings may have similar purposes, victims and results, there is no evidence of continuity. This threat of continuity is the crucial element which distinguishes those that the drafters of the RICO statute intended to punish: criminals that conduct their businesses through the repeated use of racketeering to accomplish their illegal intentions. Although isolated occasions of fraudulent conduct are also punishable under existing criminal and civil law, such conduct was not the target of RICO's particularly potent provisions.

The Eighth Circuit's interpretation and application of the pattern requirement to the isolated fraudulent scheme alleged in this case is therefore incorrect and reflects a departure from the Supreme Court's directive on this issue. Accordingly, this Court should grant Tiffany's petition and reverse the Eighth Circuit's judgment.

B. Proximate Causation Between The Conduct Constituting The Violation and the Injury Alleged.

In *Sedima, supra,* the Supreme Court explained the requirement of allegations of a causal relationship between the alleged illegal conduct and the alleged injury:

> [T]he plaintiff only has standing if, and can only recover to the extent that he has been injured in his business or property *by the conduct constituting the violation.* As the Seventh Circuit has stated, "[a] defendant who violates section 1962 is not liable for treble damages to everyone he might have injured *by other conduct,* nor is the defendant liable to those who have not been injured." *Haroco, Inc. v. American National Bank & Trust Co. of Chicago,* 747 F.2d 384, 398 (1984), *aff'd,* post, p. ____. (emphasis added).

Sedima, supra, 53 U.S.L.W. at 5039.

Upon remand of this case after this Court's Order granting Tiffany's petition for a writ of certiorari, the Eighth Circuit failed to adhere to these established guidelines of proximate causation. Although Tiffany pointed out that Grant's alleged injuries were not caused by the "conduct causing the violation" as this Court requires, but, if at all, by other conduct of Tiffany, the Eighth Circuit rejected that argument. Instead, the Eighth Circuit adopted what amounts to a "but for" test of causation which improperly expands the scope of injuries redressable in a civil RICO claim.

For example, the Eighth Circuit recognized Grant's allegation that it spent more time on the audit than it normally would have because of Tiffany's allegedly fraudulent conduct, and that Tiffany's later failure to pay constituted a "theft of its services," as an injury sufficient to confer standing under 18 U.S.C. § 1964(c). However, Grant's alleged claim for lost accounting fees was not proximately caused by Tiffany's alleged acts of mail and wire fraud but instead, as alleged, by Tiffany's *later* decision not to pay Grant. Complaint, ¶ 21.

Grant's other claims of injury are similarly defective. Its legal fees and other expenses were not caused by the mail and wire fraud scheme alleged, but rather, according to Grant's own allegations, by the SEC's investigation of Grant's role in the

scheme. Likewise, the claimed injury to business reputation flows not from the prohibited scheme, but from Tiffany's alleged post-discovery efforts to conceal and mischaracterize the scheme.

The Eighth Circuit's decision to recognize such allegations of injury as sufficient to confer standing to sue under § 1964(c) is therefore erroneous and improperly expands the scope of injuries redressable in a civil RICO claim far beyond the guidelines set down by this Court in *Sedima*. Accordingly, this Court should grant Tiffany's petition and reverse the Eighth Circuit's judgment.

CONCLUSION

For the foregoing reasons, the Court should grant this petition.

Respectfully submitted,

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APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

No. 83-1608

Alexander Grant and Company,
Appellant,

v.

Tiffany Industries, Inc., Farrell Kahn
and Gail Martin,
Appellees.

Appeal from the United States District Court
for the Eastern District of Missouri

Submitted: August 5, 1985
Filed: August 7, 1985

Before ROSS, JOHN R. GIBSON, and BOWMAN,
Circuit Judges.

JOHN R. GIBSON, Circuit Judge.

By order of the Supreme Court, the appeal of Alexander Grant and Company is before us again for further consideration in light of the recent decisions in *Sedima, S.P.R.L. v. Imrex Co.*, 53 U.S.L.W. 5034 (U.S. July 1, 1985), and *American National Bank & Trust Co. v. Haroco, Inc.*, 53 U.S.L.W. 5067 (U.S. July 1, 1985). *See Tiffany Industries v. Alexander Grant*

& Co., 53 U.S.L.W. 3914 (U.S. July 2, 1985) (No. 84-1084) (granting certiorari and vacating the judgment below); *Kahn v. Alexander Grant & Co.*, 53 U.S.L.W. 3914 (U.S. July 2, 1985) (No. 84-1222) (same). We earlier held that Grant has standing and has asserted a sufficient racketeering enterprise injury to state a claim in its action against Tiffany Industries, Inc., company president Farrell Kahn, and secretary Gail Martin under the civil damage provision of the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. § 1964(c) (1982). *Alexander Grant & Co. v. Tiffany Industries,* 742 F.2d 408 (8th Cir. 1984). We readopt those portions of our earlier opinion that we believe are not in conflict with *Sedima* and again remand so that Grant may proceed on its claims.

Grant, a public accounting firm, alleges that it was injured as the result of a pervasive scheme of mail and wire fraud designed by Tiffany to obtain a favorable audit for the fiscal year 1977. In *Sedima* the Supreme Court considered whether any such injuries, to be actionable, had to arise from an activity of a nature which RICO was designed to deter rather than merely from certain of the individual predicate acts which comprised the racketeering.

The Court made plain that no "racketeering injury" is required. 53 U.S.L.W. at 5038; *American National,* 53 U.S.L.W. at 5068. Observing that section 1964(c) authorizes suit by "[a]ny person injured in his business or property by reason of a violation of § 1962," the Court stated,

> If the defendant engages in a pattern of racketeering activity in a manner forbidden by [§ 1962], and the racketeering activities injure the plaintiff in his business or property, the plaintiff has a claim under § 1964(c). There is no room in the statutory language for an additional, amorphous "racketeering injury" requirement.

Sedima, 53 U.S.L.W. at 5038 (footnote omitted).

Sedima states that a plaintiff, as here, seeking to state a claim based on a violation of section 1962(c) must allege "(1) conduct (2) of an enterprise (3) through a pattern[1] (4) of racketeering activity." *Id.* (footnote omitted). The compensable injury then necessarily is

> the harm caused by predicate acts sufficiently related to constitute a pattern, for the essence of the violation is the commission of those acts in connection with the conduct of an enterprise. * * * Any recoverable damages occurring by reason of a violation of § 1962(c) will flow from the commission of the predicate acts.

Id. at 5039.

Point II of our earlier opinion in *Grant*, 742 F.2d at 413-14, is contrary to *Sedima* in that we accepted that some type of "racketeering enterprise injury" was necessary but declined to further define the nature of such an injury because we found it "clear that Grant's complaint does not simply allege injury

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[1] Kahn argues on reconsideration that Grant has failed to allege a "pattern" of racketeering activity. In our opinion, however, we expressly observed that Tiffany had not challenged the sufficiency of the pleading as to the substantive RICO violation under section 1962(c). *Grant*, 742 F.2d at 411. We need not consider issues thus raised for the first time at this juncture. *Cf. Goldsmith v. Diamond Shamrock*, No. 84-2269, slip op. at 4 (8th Cir. June 28, 1985). Furthermore, while *Sedima* emphasizes that the definition of pattern in section 1961(5) requires something more than just two acts of racketeering activity, 53 U.S.L.W. at 5038 n.14, the complaint in this case alleges some twenty-six acts of mail fraud and four acts of wire fraud (the amended complaint alleges forty-eight and ten acts respectively). The number and nature of acts, together with allegations demonstrating their similar purposes, results, participants, victims, and methods of commission, bespeak a sufficient "continuity plus relationship" to satisfy the Supreme Court's concerns in *Sedima* that RICO not be extended to reach sporadic activity. *See id.* (drawing analogy to 18 U.S.C. § 3575(e) (1982)).

from the underlying predicate acts." 742 F.2d at 413. Accordingly, that discussion and holding essentially have been overruled. Since, however, our error was in requiring that Grant allege *more* than the Supreme Court has now said a plaintiff must allege in order to state a civil RICO claim, we believe our ultimate directive was the proper one: Grant is entitled to pursue its allegations on the merits.

Tiffany, to the contrary, argues on reconsideration that *Sedima* instead requires that we reverse our holding that Grant has standing to bring suit under section 1964(c). The Supreme Court in *Sedima* stated that a plaintiff "only has standing if, and can only recover to the extent that, he has been injured in his business or property by the conduct constituting the violation." 53 U.S.L.W. at 5039. Tiffany asserts that Grant failed to plead that the injuries it suffered were proximately caused by "the conduct constituting the violation" rather than by other conduct of Tiffany. The complaint, however, contains the following specific allegations, which we believe are sufficient:

> Had Grant been aware of the activities of defendants as above alleged, it would not have performed any accounting services for Tiffany in connection with the 1977 audit. As a result of the fraudulent conduct of defendants * * * the personnel of Grant continued to perform accounting services for defendant, all to Grant's injury to its business and property.
>
> * * * *
>
> As the result of the SEC [Securities and Exchange Commission] investigation, which was necessitated by and resulted directly from the unlawful and fraudulent actions of defendants, Grant has incurred substantial expense in responding to SEC subpoenas and requests for documents, interviews, the giving of testimony, counsel fees related to same, and other related expenses.

> As a further result of the unlawful and fraudulent actions of defendants and their continued effort to conceal such actions, Grant has been damaged in its reputation as a national independent public accounting firm.

Record at 17-18.

The brief mention of causation in *Sedima* cannot fairly be interpreted as reading into section 1964(c) a direct injury versus indirect injury distinction. On the contrary, the approach of the Supreme Court but underscores our conclusion that Grant has standing to assert its claims.[2] *See Sedima*, 53 U.S.L.W. at 5039 n.15. We find nothing in our discussion in Point I of our earlier opinion, 742 F.2d at 411-12, in conflict with the opinions of the Supreme Court in either *Sedima* or *American National;* accordingly, we readopt that reasoning and discussion.

We remand this case to the district court for further proceedings consistent with this opinion and the decisions of the Supreme Court in *Sedima* and *American National*.

A true copy.

Attest:

Clerk, U. S. Court of Appeals, Eighth Circuit.

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[2] Similarly, we cannot accept Kahn's arguments that the "by reason of" language of section 1964(c) should be read as importing into civil RICO actions the standing requirements of section 4 of the Clayton Act. 15 U.S.C. § 15 (1982). Such an approach would merely reintroduce into the cause of action certain elements rejected by the Supreme Court in *Sedima* in its discussion of the nature of the injury to be alleged. We believe that the direct language of the Court quoted herein makes plain the full extent of a plaintiff's obligation with respect to standing and that that obligation has been satisfied in this case.

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

No. 83-1608

ALEXANDER GRANT AND COMPANY,
Appellant,

vs.

TIFFANY INDUSTRIES, INC., Farrell Kahn and Gail Martin,
Appellees.

Submitted Jan. 13, 1984.
Decided Aug. 22, 1984.

Before ROSS, JOHN R. GIBSON and BOWMAN, Circuit Judges.

JOHN R. GIBSON, Circuit Judge.

Alexander Grant and Company, a public accounting firm, appeals the dismissal of its complaint brought against its former client, Tiffany Industries, and certain Tiffany officials and employees under Title IX, the Racketeer Influenced and Corrupt Organizations (RICO) provision of the Organized Crime Control Act of 1970, Pub.L. 91-452, 84 Stat. 941, codified at 18 U.S.C. §§ 1961-1968 (1982). The district court, 563 F.Supp. 35 (E.D.Mo. 1982), relying on the Seventh Circuit's decision in *Cenco, Inc. v. Seidman & Seidman,* 686 F.2d 449 (7th Cir.), *cert. denied,* 459 U.S. 880, 103 S.Ct. 177, 74 L.Ed.2d 145 (1982), dismissed the complaint under Fed.R.Civ.P. 12(b)(6) on the ground that Grant lacked standing to sue under RICO's civil remedy provision. It also denied Grant's motion to file an amended complaint. Grant argues on appeal that the district court erred in dismissing its RICO claim and that it abused its discretion in denying Grant's motion to file the amended complaint. We reverse and remand for further proceedings.

Grant was retained by Tiffany from 1970 through May, 1978. In 1979, Grant filed an actin under RICO's civil remedy provision, 18 U.S.C. § 1964(c), against Tiffany, its president, Farrell Kahn, and Kahn's secretary Gail Martin. Grant claimed that it was the target of a prevasive scheme of mail and wire fraud designed by the defendants to obtain a favorable audit for the fiscal year 1977. Tiffany allegedly sought the favorable audit to obtain credit on better terms and to mislead its stockholders and the Securities & Exchange Commission into believing that the company was financially healthy.

For purposes of reviewing the district court's dismissal of Grant's complaint under Fed.R.Civ.P. 12(b)(6), we must accept as true all of Grant's material allegations and liberally construe the complaint in its favor. *Loge v. United States,* 662 F.2d 1268, 1270 (8th Cir. 1981), *cert. denied,* 456 U.S. 944, 102 S.Ct. 2009, 72 L.Ed.2d 466 (1982). The first allegation is that Kahn, in an effort to inflate the value of Tiffany inventory, falsely represented to Grant that Steelabrade Corporation, a supplier of products to Tiffany, held $500,000 worth of Tiffany inventory as of March, 1978. Grant requested confirmation of this claim from Steelabrade president James Murphy. Kahn and Martin, knowing Murphy would not comply, instead requested that he compile a schedule of all purchases of Steelabrade products by Tiffany during 1977. The two then attached a copy of Grant's confirmation request to the schedule and fraudulently inserted language above Murphy's signature stating that "[t]his inventory was at our premises at December 31, 1977, and March 1, 1978." These documents were then mailed to Grant.

Grant's second claim of fraud concerns an alleged sale of $3,500,000 worth of Tiffany products to the government of Nigeria. Grant learned through the course of its audit that a substantial portion of the products sold had not yet been purchased by Tiffany. Grant questioned whether Tiffany could, under these circumstances, record in its financial statements the substantial earnings resulting from this sale. In response, Tiffany personnel stated that the sale should be certified because

they had issued purchase orders for the products as of June 30, 1977, and that the products were held by ten suppliers who were simply awaiting further shipping instructions. Grant requested confirmation of this claim from the ten suppliers. Kahn and Martin backdated purchase orders and mailed to Grant forged letters from the suppliers confirming the representations made by Tiffany personnel. Grant, still apprehensive, sought "reconfirmation" of the same information. Kahn and Martin then pressured six suppliers to sign and mail reconfirmation letters back to Grant.

Grant further asserts that Kahn and Martin typed two letters at Tiffany's St. Louis County offices allegedly from Nigerian bank officials. The two letters, one a forgery and the other "on information and belief" a forgery, represented that the two banks had extended $3,500,000 in loan commitments to the Nigerian government to enable it to purchase the Tiffany products. Grant also claims that Tiffany used false information to persuade four independent public accounting firms to certify the Nigerian sale, thereby pressuring Grant to do the same. These certifications were then mailed to Grant. By April, 1978, Grant suspected that it was being defrauded and reported its concerns to the Securities & Exchange Commission as required by SEC regulations.

Grant concludes its complaint with the allegation that Tiffany's actions constitute a substantive RICO violation under 18 U.S.C. § 1962(c).[1] It asserts that mail fraud, 18 U.S.C. § 1341, and wire fraud, *id.* § 1343, are two of the acts included in the

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[1] Section 1962(c) provides that

> [i]t shall be unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise's affairs through a pattern of racketeering activity or collection of unlawful debt.

definition of "racketeering activity,"[2] that the defendants carried out two or more such acts within a ten-year period, thus establishing a "pattern of racketeering activity,"[3] and that Tiffany is an interstate "enterprise"[4] conducted by defendants through a pattern of racketeering activity. Grant further asserts that it is entitled to civil damages for this violation under 18 U.S C. § 1946(c).[5]

The district court denied Grant's motion to file an amended complaint. The amended complaint names additional Tiffany officials as defendants and recites the foregoing with far greater specificity and clarity. It also incorporates additional claims of fraud; the original complaint includes 26 acts of mail fraud and 4 acts of wire fraud while the amended complaint reveals 48 and 10 instances, respectively. Included in the amended complaint are the following additional allegations: (1) Tiffany officials were negotiating with seven insurance companies for $9,000,000 in loans when it discovered in June, 1977 that, if generally accepted accounting principles were used, it was operating at a

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[2] "Racketeering activity" is defined as, *inter alia*, "any act which is indictable under any of the following provisions of title 18, United States Code: * * * section 1341 (relating to mail fraud), section 1343 (relating to wire fraud) * * *." 18 U.S.C. § 1961(1)(B).

[3] A "pattern of racketeering activity" is defined as "at least two acts of racketeering activity * * the last of which occurred within ten years * * after the commission of a prior act of racketeering activity." 18 U.S.C. § 1961(5).

[4] "Enterprise" includes "any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity." 18 U.S.C. § 1961(4).

[5] 18 U.S.C. § 1964(c) provides a civil remedy to "[a]ny person injured in his business or property by reason of a violation of section 1962 * *."

loss for the year; (2) Tiffany officials forged at least some of the "reconfirmation" letters from those suppliers who either refused or ignored Kahn's request that they assure Grant that they held Tiffany inventory bound for Nigeria; (3) Tiffany officials forged a third letter and a telex from officers of Nigeria banks that confirmed the $3,500,000 loan commitment to the Nigerian government; and (4) Tiffany officials further defrauded Grant by representing that Tiffany "farm stores" held inventory in excess of its actual value. The officials also pressured the managers of these stores to send false certifications to Grant and to make phony offers to purchase their inventories at inflated prices.

Grant asserts the it was damaged in three respects as a result of Tiffany's fraudulent representations. First, it claims that it suffered "theft of services," *i.e.*, the fraud required it to spend substantially more time on the Tiffany audit with a commensurate increase in fees, none of which have been paid. Second, it contends that the SEC investigation caused it to spend large amounts for attorneys' fees, document requests, and other expenses. Third, Grant argues that the fraud caused it to suffer damages to its business reputation.

I. Standing

The district court did not hold, nor does Tiffany argue, that Grant has failed to plead facts sufficiently alleging that Tiffany committed a substantive violation of RICO under section 1962(c).[6] Rather, the district court relied on *Cenco* and its

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[6] *See supra* note 1. We do observe that Grant's original complaint alleges that Tiffany is both a "person" and an "enterprise" within the meaning of section 1962(c). It was precisely because of the possibility of such an identity that we held that count II of the complaint in *Bennett v. Berg*, 685 F.2d 1053, 1061-62 (8th Cir. 1982), *aff'd in part and rev'd in part*, 710 F.2d 1361 (8th Cir. 1983) (en banc), *cert. denied*, ____ U.S. ____, 104 S.Ct. 527, 78 L.Ed.2d 710 (1983), failed to state a claim. Tiffany does not raise this point on appeal. We note, however, that Grant's amended complaint alleges that, in addition to Tiffany, two other distinct "enterprises" existed. The first consists of an

holding that the accounting firm in that case suffered only "indirect" injury insufficient to grant it standing under section 1964(c).[7] Grant asserts that *Cenco* should not be adopted as the law of this circuit because its restrictive interpretation has no basis in the language or legislative history of RICO. It further argues that, in any event, this case is distinguishable from *Cenco* because Grant has been "directly" injured by Tiffany's fraudulent practices. Tiffany argues that *Cenco* was properly decided and that Grant has suffered the same indirect injury alleged by the accounting firm in that case.[8]

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association in fact of the six named individuals alleged in the amended complaint to have participated in the fraud. The second consists of all Tiffany employees.

[7] *See supra,* note 5. The term "indirect injury" discussed in *Cenco* has also been used as a synonym for the "commercial" or "competitive" injury requirement. *See, e.g., Schacht v. Brown,* 711 F.2d 1343, 1356-58 (7th Cir.), *cert. denied,* ____ U.S. ____, 104 S.Ct. 509, 78 L.Ed.2d 698 (1983). It has been suggested that this requirement, borrowed from antitrust law, is applicable to RICO because the statute's legislative history reveals that it was "intended in part to combat the threat posed by racketeer influences in the free market system." *Bennett,* 685 F.2d at 1059. We explicitly rejected in *Bennett* any "commercial" or "competitive" injury restriction on standing under RICO. *Id. See also* Blakey, *The RICO Civil Fraud Action in Context: Reflections on Bennett v. Berg,* 58 Notre Dame L.Rev. 237, 255 n. 52 (1982).

[8] Appellee Kahn argues separately that Grant's injury is insufficient because it was not a victim in the "target area" of the alleged RICO violation. He asserts that this concept, derived from standing tests developed under section 4 of the Clayton Act, 15 U.S.C. § 15 (1982), is applicable to RICO plaintiffs. Recognizing that we declined in *Bennett* an invitation to apply antitrust standing restrictions to RICO plaintiffs, *see supra* note 7, Kahn does not argue that Grant satisfies the target area test only if it suffers "commercial" or "competitive" injury. Rather, Kahn asserts that Grant must "loan Tiffany money, buy its stock or otherwise extend economic benefits to [it] * * *" to have standing. Appellee's Brief at 20. We believe that this reasoning is simply an alternative means of characterizing Grant's injury as "indirect," and therefore feel it merits no analysis independent of our discussion of *Cenco.*

We believe that Cenco is distinguishable from this case. In *Cenco,* the accounting firm of Seidman & Seidman was a co-defendant with Cenco, Inc., in a class action brought by persons who had purchased Cenco stock at allegedly inflated prices due to the company's fraudulent representations. The co-defendants cross-claimed against each other. Seidman argued that it too had been defrauded by Cenco and sought as damages under RICO indemnification for its liability to the shareholders. In this case, Grant seeks not indemnification but damages for the amount of its lost fees, the amount spent by reason of the SEC investigation, and the amount representing its loss of business reputation. We believe there are direct injuries, distinguishable from a claim for indemnification which, by its very nature, is secondary and indirect.

Second, and more compellingly, we are unpersuaded by the reasoning employed in *Cenco.* Judge Posner, writing for the panel, reasoned that the case was one of first impression and that the "language of section 1964(c) provides no answer * * * and there is no useful legislative history relating to the provision." *Cenco,* 686 F.2d at 457. The opinion thus focused on whether recognizing a cause of action in favor of Seidman would be consistent with the "compensatory and deterrent objectives of RICO" and would comport with its primary purpose of "cop[ing] with the infiltration of legitimate businesses.' " *Id.* (quoting *United States v. Turkette,* 452 U.S. 576, 591, 101 S.Ct. 2524, 2532, 69 L.Ed.2d 246 (1981)). The court concluded that the objectives and purposes of RICO would not be served by permitting such actions, and also expressed concern with the volume of treble damage lawsuits an opposite decision might spawn.[9]

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[9] The particular language in *Cenco* is as follows:

> It is presumably on behalf of the owners, perhaps also the customers and competitors, of such businesses that the civil damages remedy was created, and not on behalf of the people

We cannot agree that Grant's standing under section 1964(c) is to be determined by means of an appeal to RICO's purpose and objectives. Section 1964(c) provides a civil remedy for "[a]ny person injured in his business or property by reason of a violation of section 1962 * * *." This language is unambiguous and, "in the absence of a 'clearly expressed legislative intent to the contrary, that language must ordinarily be regarded as conclusive.' " *Russello v. United States*, ____ U.S. ____, ____, 104 S.Ct. 296, 299, 78 L.Ed.2d 17 (1983) (quoting *Turkette*, 452 U.S. at 580, 101 S.Ct. at 2527). We find no legislative history supporting the direct-indirect dichotomy; indeed, to the extent that the concept of indirect injury is a surrogate for concerns of federal-state relations and crowded court dockets, the legislative history indicates that Congress recognized that these were necessary costs in the fight against organized crime. *See* Blakey, supra note 7, at 280. It is simply "beyond our authority to restrict the reach of the statute" in this manner. *Bennett v. Berg*, 685 F.2d 1053, 1064 (8th Cir. 1982), *aff'd in part and rev'd in part*, 710 F.2d 1361 (8th Cir. 1983) (en banc), *cert. denied*, ____ U.S. ____, 104 S.Ct. 527, 78 L.Ed.2d 710 (1983); *see generally Moss v. Morgan Stanley, Inc.*, 719 F.2d 5, 21 (2d Cir. 1983), *cert. denied*, ____ U.S. ____, 104 S.Ct. 1280, 79 L.Ed.2d 684 (1984); *Schacht v. Brown*, 711 F.2d 1343, 1361 (7th Cir.), *cert. denied*, ____ U.S. ____, 104 S.Ct. 509, 78 L.Ed.2d 698 (1983).

We also observe that Judge Posner, in the post-*Cenco* decision of *Sutliff, Inc. v. Donovan Cos.*, 727 F.2d 648 (7th Cir. 1984), determined the scope of RICO with considerably greater

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> who supply office equipment or financial or legal services to criminal enterprises that may be violating RICO. It is unlikely that Congress if it had adverted to the issue would have chosen to create in the wake of every RICO violation waves of treble-damage suits by all who may have suffered indirectly from the violation, especially when many of these would inevitably be, as here, the witting or unwitting tools of the violator.

686 F.2d at 457.

deference to its plain language than he did in *Cenco*.[10] We believe that *Sutliff* robbed *Cenco* of much of the precedential value accorded it by the district court. Insofar as the approaches in the two cases differ, the task of reconciliation is left to the Seventh Circuit.

We conclude that Grant has suffered injury within the meaning of section 1964(c).

II. Racketeering Enterprise Injury

Section 1964(c) provides that a civil remedy is available to persons suffering injury "by reason of a violation of section 1962 * * *." Yet section 1962(c) does not prohibit "racketeering activity;" rather, it makes it unlawful for a person to "conduct or participate * * * in the conduct of [an] enterprise's affairs through a pattern of racketeering activity * * *." Tiffany reasons that the language of these two sections combines to limit civil recovery to persons suffering a "racketeering enterprise injury"—*the conduct of an enterprise through* a pattern of racketeering—and does not create a cause of action for those suffering injury only from the underlying predicate acts. Tif-

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[10] In *Sutliff*, Judge Posner made the following observation in the context of rejecting an organized crime connection for civil RICO recovery:

> Congress deliberately cast the net of liability wide, being more concerned to avoid opening loopholes through which the minions of organized crime might crawl to freedom than to avoid making garden-variety frauds actionable in federal treble-damage proceedings—the price of eliminating all possible loopholes. We must abide by Congress's decision, made at a time of less sensitivity than today to the workload pressures on the federal courts and to the desirability of maintaining a reasonable balance between state and federal courts, however much we may regret not only the burdens that the decision has cast on the federal courts but also the displacement of state tort law into the federal courts that it has brought about.

727 F.2d at 654 (citations omitted). *Sutliff* does not refer to the *Cenco* decision.

fany asserts that Grant's injuries have resulted solely from the particular acts of mail and wire fraud outlined in the complaint.

We have characterized the attempt to limit the scope of RICO by seizing on the "by reason of" language contained in section 1964(c) as a "reiterat[ion] in new guise [of] the argument that no [distinct] 'enterprise' is alleged * * *." *Bennett,* 685 F.2d at 1059 n. 5. As advanced by Tiffany here, a racketeering enterprise injury also appears to bear some resemblance to the commercial or competitive injury concept and to the requirement that RICO is applicable to only those defendants associated with organized crime. We rejected both of these restrictions in *Bennett.* 685 F.2d at 1058-59, 1063-64. We recognize that a racketeering enterprise injury is a slippery concept whose definition has eluded even those courts professing to recognize it. *See In Re Catanella and E.F. Hutton and Co. Sec. Litigaton,* 583 F.Supp. 1388, 1434-37 (E.D.Pa.1984) (collecting cases). "Underlying this [racketeering enterprise injury] requirement is the familiar judicial discomfort with the potential breadth of RICO's civil component." *Id.* at 1434.

We need not further consider the nature of a racketeering enterprise injury, however, for it is clear that Grant's complaint does not simply allege injury from the underlying predicate acts. It contends that Tiffany was conducted through a pattern of mail and wire fraud that enabled it to remain in business. As a result of this extended life, Grant continued to provide its accounting services to Tiffany for a time greater than it would have had the fraud not occurred. This also increased the harm resulting to Grant's business reputation. We conclude that these allegations sufficiently plead an injury "by reason of" a RICO violation.

The Second Circuit recently held in *Sedima, S.P.R.L. v. Imrex Co.,* 741 F.2d 482 (2d Cir. 1984), that the "by reason of" language in section 1964(c) requires that the injury result from mobster activity or the efforts of organized crime. As indicated previously, this requirement is contrary to our holding in *Ben-*

nett.[11] We do view our decision today as consistent with the Second Circuit's decision in *Bankers Trust Co. v. Rhoades*, 741 F.2d 511 (2d Cir. 1984). Both require that civil RICO plaintiffs allege something more than injury from the underlying predicate acts. We recognize, however, that the Second Circuit in *Bankers Trust* defines that "something more" in a far narrower fashion. *Id.* at 517. *See also Furman v. Cirrito*, 741 F.2d 524 (2d Cir. 1984) (criticizing the requirement of a racketeering enterprise injury imposed by *Sedima* and *Bankers Trust*).

Appellee Kahn asserts in the alternative that no "racketeering enterprise injury" exists because Tiffany never secured the favorable audit from Grant, and therefore its business operations were never enhanced, nor did it receive any financial advantage, from its racketeering activity. We are not persuaded by this argument. As concluded above, Grant's complaint sufficiently alleges that its injury resulted from the operation of Tiffany through a pattern of racketeering activity. Moreover, Kahn's argument would lead to the anomalous result that the racketeering activity must be allowed to proceed to successful completion before civil recovery is permitted. No interpretation of the plain language of RICO's civil provisions supports the position that Grant must silently tolerate the significant costs and risks associated with ongoing fraud before it seeks redress.

III. Amended Complaint

The district court did not articulate its reasons for refusing to allow Grant to file the amended complaint. Two factors convince us that the district court should on remand give serious consideration to Grant's motion. First, any additional allegations contained in the amended complaint would in all

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[11] *Sedima* also holds that a prior criminal conviction is a prerequisite to civil RICO recovery. This issue has not been raised in the district court in this case.

likelihood be permitted in evidence under the original complaint. Second, the amended complaint relates Grant's claim in a far clearer and more specific manner.

In summary, we conclude that Grant has sufficiently pled that it was "injured" by Tiffany's fraudulent practices and that its injury occurred by reason of" Tiffany's alleged violation of section 1962(c).

APPENDIX C

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

No. 79-191 C (3)

ALEXANDER GRANT & COMPANY,
Plaintiff,

v.

TIFFANY INDUSTRIES, INC., et al.,
Defendants.

MEMORANDUM AND ORDER
(Filed Dec. 30, 1982)

This matter is before the Court on defendants' renewed motions to dismiss. The Court in its order of July 20, 1982, set out a pre-trial procedure which would be followed in this matter. In this initial stage the Court will consider only the legal issue of plaintiff's standing under the civil liability provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. §1964. Both sides have briefed this issue extensively for the Court.

Plaintiff is the former independent auditor of defendnat Tiffany Industries. In its complaint plaintiff alleges that defendants committed various fraudulent acts in an attempt to deceive plaintiff as to Tiffany's true financial condition. Plaintiff claims that the resulting deception visited upon it resulted in harm to its reputation and seeks treble damages under RICO. Defendants contend that plaintiff has no standing under RICO to bring this action and cite in support of their argument the Seventh Circuit's recent opinion in *Cenco, Inc. v. Seidman & Seidman*, 686 F.2d 449 (7th Cir. 1982). Thus the Court's ruling on defendants' motions turns upon *Cenco's* meaning and applicability to this action.

Cenco was an action involving facts very similar to those in this action. Purchasers of Cenco stock brought a class action against Cenco and its independent auditor Seidman & Seidman alleging that fraudulent practices committed by various defendants artificially inflated the value of Cenco's stock. Seidman & Seidman cross-claimed against Cenco under RICO. The court phrased the issue as a question of "the standing of auditors under the RICO statute...to sue [the audited company] for damages...." 686 F.2d at 451. The court inquired "whether a treble-damages action by auditors of criminal enterprises would contribute to the compensatory and deterrent objectives of RICO." *Id.* at 457. Pursuant to this analysis, the court held that auditors such as Seidman & Seidman have no standing under RICO to sue the audited company. In so doing the court stated:

> [i]t is presumably on behalf of owners, perhaps also the customers and competitors, of such businesses that the civil damages remedy was created, and not on behalf of the people who supply office equipment or financial or legal services to criminal enterprises that may be violating RICO.

Id.

In the matter *sub judice* plaintiff attempts to distinguish *Cenco* by arguing that the auditors there alleged only indirect injury while plaintiff here is alleging a direct injury. Although the matter seems to be largely a question of semantics, the holding of the Seventh Circuit is clear—auditors of companies that have been practicing fraudulent bookkeeping techniques do not have standing under RICO to sue the audited companies. The court ruled as a matter of law that auditors of fraud practicing firms do not suffer the type of injury redressable under RICO.

Plaintiff also contends that *Cenco* is in conflict with a recent Eighth Circuit decision, *Bennett v. Berg*, 685 F.2d 1053 (8th Cir. 1982), and that the Eighth Circuit's opinion is controlling here. It is true, of course, that if the Seventh and Eighth Circuits had

issued conflicting rulings of law, this Court would be bound by the Eighth Circuit's edict. This, however, is not the situation here. In *Berg* the Court addressed two arguments raised by appellees there. First, the court resolved the issue of whether plaintiffs in that action were required to plead breach of contract to state a claim under RICO. Second, the court answered appellees' contention that plaintiffs had alleged no "injury to property," which appellees argued was a requirement of RICO. 685 F.2d at 1058. Thus, *Berg* is simply a different case than *Cenco,* which indeed, is strikingly similar to the facts in this matter.

Moreover, *Berg* is distinguishable from *Cenco* on one other ground as well. In *Berg* plaintiffs were customers of defendants and were alleging that the "life-care" they had contracted for at the subject retirement village was endangered by defendants' financial mismanagement. Contrast this with the situations in *Cenco* and here in which plaintiffs are neither "owners... customers [nor] competitors" of the alleged criminal enterprises. *Cenco,* 686 F.2d at 457. Accordingly, the Court does not believe that *Berg* in any way alters the applicability or persuasiveness of *Cenco,* and thus, defendants' motions to dismiss plaintiff's complaint will be granted.

Dismissal of plaintiff's complaint does not, however, bring this entire matter to a close. Several defendants in this action have filed counterclaims against plaintiff, and the question remains whether these are to be dismissed as well. Inasmuch as the counterclaims seem to raise primarily state law issues, the Court is most concerned with whether it has subject matter jurisdiction over the counterclaims. The Court, therefore, will ask the parties to brief the issue of whether dismissal of defendants' counterclaim is appropriate under the circumstances of this action.

In accordance with the foregoing,

IT IS HEREBY ORDERED that defendants' renewed motions to dismiss plaintiff's complaint be and are GRANTED.

IT IS FURTHER ORDERED that plaintiff's complaint be and is DISMISSED without prejudice.

IT IS FURTHER ORDERED that the parties shall within 15 days of the date of this order submit to the Court memoranda on the issue of whether defendants' counterclaim in this action should be dismissed.

Dated this 30th day of December, 1982.

/s/ Edward L. Filippine
United States District Judge

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

No. 79-0191-C(4)

ALEXANDER GRANT & COMPANY, a partnership,
Plaintiff,

vs.

TIFFANY INDUSTRIES, INC., FARRELL KAHN
and GAIL MARTIN,
Defendants.

COMPLAINT

COUNT I

JURISDICTION AND VENUE

1. Jurisdiction of this Court is founded upon the provisions of Chapter 96, U.S. Code, "Racketeer Influenced and Corrupt Organizations", Title 18, U.S. Code, Sections 1961, 1962, 1963 and 1964. Defendants were associated with an enterprise [as defined by 18 U.S.C. 1961 (4)], which enterprise was engaged in interstate or foreign commerce (or affected interstate or foreign commerce). Defendants did unlawfully, willfully, and knowingly conduct and participate, directly and indirectly, in the conduct of such enterprise's affairs through a pattern of "racketeering activity" as defined in 18 U.S.C. 1961, to the damage of plaintiffs as hereinafter alleged.

2. This civil action is brought under 18 U.S.C. 1964(c), which provides that any person injured in his business or property by reason of a violation of 18 U.S.C. 1962 may sue therefor in the U.S. District Court for threefold damages.

3. Venue in this Court is founded upon 18 U.S.C. 1965(a), in that defendants reside in the Eastern District of Missouri, or

may be found in said District, or are transacting business in said District.

4. Plaintiff Alexander Grant & Company (hereinafter "Grant") is a partnership and brings this action in its common name pursuant to Rule 17(b)(1), F.R.C.P. for the purpose of enforcing a substantive right existing under the Constitution or laws of the United States. Grant is a public accounting firm and is engaged in the business of rendering audit and accounting services throughout the United States. In the course of rendering its services, Grant represents numerous publicly held companies which are subject to regulation and supervision by the federal Securities and Exchange Commission ("SEC").

5. Defendant Tiffany Industries, Inc. ("Tiffany") is a corporation having its principal place of business in the Eastern District of Missouri. Tiffany is a publicly held company. Unitl approximately May 1, 1978, the stock of Tiffany was traded on the American Stock Exchange.

6. Defendant Farrell Kahn ("Kahn") is a resident of St. Louis County, Missouri. At all relevant times herein alleged and until approximately May 1, 1978, Kahn was President and Chief Executive Officer ("CEO") of Tiffany. As CEO of Tiffany, Kahn directed and controlled the business of Tiffany and its operations.

7. Defendant Gail Martin ("Martin") resides in the Eastern District of Missouri. At all relevant times herein alleged, Martin was employed by Tiffany as secretary to defendant Kahn.

8. At all relevant times, the activities of defendants Kahn and Martin, and the activities of all other officers, agents and employees of Tiffany, all as described herein, were performed within their employment capacities with Tiffany and were carried out in behalf of Tiffany.

9. Under the provisions of SEC regulations, public companies, including Tiffany, are required to retain independent

public accountants to audit their books and certify to their financial statements. SEC regulations further require filings by Tiffany and other public companies of independently audited financial statements, and the SEC and the investing public rely upon the accuracy and reasonableness of said financial statements. For several years prior to 1978 and until approximately May 22, 1978, Grant was retained by Tiffany to render accounting and auditing services. Tiffany's fiscal year ends on December 31. Among the services rendered by Grant to Tiffany was the conduct of annual audits of Tiffany's books and records. The results of audits conducted by Grant were incorporated by Tiffany into its annual reports to stockholders and were also included in reports made by Tiffany to the SEC as required by federal securities laws.

10. Tiffany has, from time to time, borrowed substantial sums from various lenders. Upon information, in July of 1977, Tiffany sought and obtained additional loans upon representations by Tiffany to its lenders that Tiffany's financial position was sound and that Tiffany was enjoying positive earnings and thus was a good credit risk to said lenders.

11. Defendant Tiffany is and was at all relevant times a "person" as defined in 18 U.S.C. Sec. 1961(3). Tiffany sells its products in interstate and foreign commerce. Defendants Kahn and Martin were at all relevant times "persons" employed by Tiffany. Defendants were at all relevant times associated with an "enterprise" as defined in 18 U.S.C. Sec. 1961(3) engaged in or the activities of which affect interstate and foreign commerce, specifically, Tiffany and its business operations and affairs.

12. Sometime prior to June 30, 1977, the exact time presently unknown to plaintiffs, defendant Kahn and other officers and employees of Tiffany devised a scheme or artiface to defraud Grant and others. Defendant Kahn and other officers and employees of Tiffany became aware that Tiffany's actual financial position was unsound and that if "generally accepted ac-

counting principles" ("GAAP") were applied, Tiffany was incurring losses rather than earnings. Tiffany misrepresented its true financial position to its lenders in order to obtain financing. Grant was not retained by Tiffany to conduct "interim" audits on Tiffany's books and records during the year. Accordingly, during the year Tiffany was able to record certain sales (as hereinafter described) and to make other entries to its books during the year without any check by independent auditors. Tiffany "closed" its 1977 books and sought to show earnings for the fiscal year ending December 31, 1977. After adjustments proposed by Tiffany, Defendant Kahn and other officers and employees of Tiffany knew that if the actual financial facts (applying GAAP) concerning its 1977 performance were discovered, Tiffany would have sustained a substantial loss for the year instead of a profitable year as shown on Tiffany's books.

13. Defendants sought to induce Grant into assisting, aiding and abetting Tiffany in making false, misleading and fraudulent financial statements. Defendant Kahn and other officers and employees of Tiffany gave Grant false, misleading and fraudulent information, intending that Grant accept such false, misleading and fraudulent information and permit Tiffany to include such information in Tiffany's financial statements. Defendants further sought to induce Grant to restrict the scope of its audit investigations by complaining that the scope was excessive and by withholding payment of amounts due and theretofore promised to Grant for services performed by Grant during the course of the audit. Defendants further sought to induce Grant to "certify" its audit and financial statements to the SEC and to stockholders, thus lending Grant's reputation and credibility as independent auditors to such false and fraudulent financial statements.

14. Having devised the scheme to defraud as heretofore alleged, defendants conducted or participated, directly or indirectly, in the conduct of Tiffany's affairs through a pattern of

racketeering activity as defined in 18 U.S.C. Sec. 1961(5) in the following particulars:

(a) In late February or early March, 1978, defendant Kahn, in furtherance of said scheme to defraud, called (on the telephone) one Murphy, who is President of Steelabrade Corporation ("Steelabrade"), a supplier of products to Tiffany. Kahn, with full knowledge that as of December 31, 1977 and early March, 1978 Steelabrade held no Tiffany "inventory" in its possession, nevertheless, fraudulently and willfully attempted to induce Murphy to represent to Grant that Steelabrade did, in fact, have in its possession as of December 31, 1977 and early March, 1978 certain inventory purportedly the property of Tiffany. Murphy refused Kahn's fraudulent request, whereupon Kahn directed Murphy to prepare and deliver to Kahn a schedule of all purchases during 1977 of Steelabrade products by Tiffany. Murphy complied.

(b) Kahn falsely and fraudulently represented to Grant that Steelabrade held in its possession (as of December 31, 1977 and early March, 1978) approximately $500,000 in "inventory" (products sold by Steelabrade to Tiffany and other products, all of which were held in Steelabrade's possession). In reliance upon said representations, Grant caused to be sent to Steelabrade a "confirmation" request, that is, a written request that Steelabrade confirm to Grant that Steelabrade did, in fact, have in its possession said inventory. A copy of said confirmation request is attached as Exhibit A and incorporated herein.

(c) On or about March 8, 1978, Kahn and Martin (at Kahn's direction) prepared a schedule showing sales by Steelabrade to Tiffany during 1977 and additional products. The total of said sales and other property was valued at approximately $500,000. To said schedule said defendants attached a confirmation request. Defendant Kahn, or defendant Martin, or some third person (acting at the direction of Kahn or Martin) signed the name "James V. Murphy" (President of Steelabrade) to said document and dated the same. Said signature was made

without the knowledge, consent or authorization of Murphy, and is a forgery. Further, defendant Kahn, or defendant Martin (at Kahn's direction) inserted the following typed language in the confirmation request:

> "Attached please find a list of materials that was either purchased from us going back to 1976 or was delivered to our facility for processing during 1977. This inventory was at our premises at December 31, 1977 and March 1, 1978."

The insertion of said language was done without the knowledge, consent or authorization of Murphy, and is a false statement. A copy of the fictitious and fraudulent confirmation, together with the schedule, is attached as Exhibit B and is incorporated herein.

(d) Defendants committed the acts herein alleged as part of a scheme to defraud Grant, in that Defendants by means of false representations and forgery, intended to induce Grant to believe that Tiffany owned some $500,000 in inventory in the possession of Steelabrade. Defendants further attempted to induce Grant to make a certified audit which would reflect ownership by Tiffany of said inventory. Such certification would have materially increased Tiffany's earnings (or decreased its losses) for 1977, and would have distorted Tiffany's actual financial condition as of December 31, 1977.

(e) On or about March 8, 1978, defendants, having devised and intending to devise a scheme or artifice to defraud (as heretofore alleged) by means of false or fraudulent representations, and for the purpose of executing such scheme or artifice or attempting so to do, placed in a post office or authorized depository for mail, to be sent or delivered by the U. S. Post Office Department, the fictitious, fraudulent and forged confirmation (Exhibit B), addressed to Grant at its offices in Clayton, Missouri. Such actions of defendants are in violation of Title 18, United States Code, Section 1341 (Mail Fraud). Further, such actions constitute a part of a pattern of racketeering activity in violation of Title 18, United States Code, Section 1962.

(f) On or about March 8, 1978, defendants, having devised and intending to devise a scheme or artifice to defraud (as heretofore alleged) by means of false or fraudulent representations, and for the purpose of executing such scheme or artifice or attempting so to do, placed in a post office or authorized depository for mail, to be sent or delivered by the U. S. Post Office Department, a copy of the fictitious, fraudulent and forged confirmation (Exhibit B-1 attached hereto and incorporated herein), addressed to James V. Murphy at Steelabrade at its offices in St. Louis County, Missouri. Such actions of defendants as alleged herein are a separate and additional violation of Title 18, United States Code, Section 1341 (Mail Fraud). Further, such actions constitute a part of a pattern of racketeering activity in violation of Title 18, United States Code, Section 1962.

15. In June, 1977, shortly prior to obtaining loans as described in paragraph 10, Tiffany recorded on its books a purported sale to the Government of Nigeria (hereinafter the "Nigerian sale") in the approximate amount of $3,500,000. The effect of Tiffany's recordation of such purported sale was to increase substantially Tiffany's net income for 1977 (or to decrease losses substantially). The recordation of such sale by Tiffany was effected unilaterally, that is, without audit by Grant.

16. In late December, 1977 when Grant personnel commenced work on the audit of Tiffany's books for 1977, the purported Nigerian sale was brought to Grant's attention. Grant discovered that most of the products allegedly "sold" by Tiffany in 1977 to the Government of Nigeria had not, in fact, been shipped by Tiffany to the Customer. Additionally, Grant's investigation revealed that a substantial portion of the products allegedly "sold" by Tiffany in 1977 were products Tiffany was to purchase from suppliers, and most of said products had not even been purchased by Tiffany for delivery to the Government of Nigeria.

17. As the result of discoveries by Grant as alleged in paragraph 16, serious and substantial questions arose as to

whether, in accord with GAAP, Tiffany had properly recorded the Nigerian sale, and whether Tiffany had the right to reflect in its financial statements the substantial earnings (or reduction in losses) which would result from such a sale. Grant personnel communicated to defendant Kahn and to other Tiffany personnel their serious doubts as to the validity of the purported "sale". Tiffany personnel and representatives of Tiffany aggressively sought to persuade Grant to "sign off" on said sale, that is, to certify that said purported "sale" was indeed a sale in accord with GAAP.

18. Between January and May, 1978, defendants conducted or participated, directly or indirectly, in the conduct of Tiffany's affairs through a pattern of racketeering activities in that they committed acts in violation of 18 U.S.C. 1341 (mail fraud) and 18 U.S.C. 1343 (wire fraud) as part of a fraudulent scheme or artifice to deceive Grant and to induce Grant to certify the purported Nigerian sale as a sale in accord with generally accepted accounting principles. More specifically:

(a) In early 1978, Tiffany personnel represented to Grant personnel that the Nigerian sale should be recognized as a sale for various reasons, including Tiffany's representation that while the products "sold" had not yet been delivered, nevertheless Tiffany had issued purchase orders in June 1977 (before the Nigerian sale was recorded by Tiffany) to various suppliers, and that the suppliers were "holding" the products as early as June, 1977, awaiting only shipment instructions from Tiffany. Tiffany personnel urged Grant personnel to consider such products as "sold" since Tiffany was obligated to pay the suppliers for such products (by virtue of the purchase orders), and the products were ready for shipment.

(b) In response to the representations by Tiffany as described in subparagraph (a), Grant personnel requested of Tiffany confirmation from each supplier as to the following: (1) the issuance by Tiffany of purchase orders to the various suppliers

prior to June 30, 1977 (the date the Nigerian sale was recorded); (2) the fact that the products so ordered were in fact being held for Tiffany by the suppliers prior to June 30, 1977.

(c) The representations made by Tiffany as described in subparagraph (a) were false and fraudulent and known to be so when made. Tiffany had not, in fact, issued such purchase orders prior to June 30, 1977 as represented, nor were said products being held (per any such purchase orders) by said suppliers awaiting orders for shipment.

. (d) Having devised a scheme or artifice to defraud, as heretofore alleged, Tiffany caused to be placed in a post office or authorized depository for mail matter, to be delivered by the U.S. Post Office Department, and thereafter received a letter dated February 20, 1978 from Hunter Manufacturing, Inc. to Tiffany (Exhibit C attached and incorporated herein). Tiffany caused said letter to be mailed and received said letter for the purpose of executing a scheme to defraud Grant and to induce Grant to "sign off" on the Nigerian sale, that is, to certify the sale as a sale and to aid Tiffany in issuing false and fraudulent financial statements which would distort Tiffany's actual earnings or losses. The aforesaid acts by Tiffany are in violation of 18 U.S.C. 1341 (mail fraud) and are part of a pattern of racketeering activity carried out by Tiffany in the conduct of its affairs.

(e) Tiffany committed nine additional and separate violations of 18 U.S.C. 1341 (mail fraud) by causing nine letters to be sent by other suppliers to Tiffany. None of the suppliers, including Hunter Manufacturing, Inc., were aware of Tiffany's true purpose and intent. As to each such letter, Grant restates the allegations contained in subparagraph (d) hereof. Each such violation constitutes part of a pattern of racketeering activity by Tiffany in the conduct of its affairs. Said letters are marked Exhibits D, E, F, G, H, I, J, K and L, and are further described as follows:

Exhibit D: Letter of Merritt Roaster Corp. dated 2/2/78 to Tiffany

Exhibit E: Letter to Hagan Manufacturing Company dated 2/17/78 to Tiffany

Exhibit F: Letter of the Essmueller Company dated 2/21/78 to Tiffany

Exbibit G: Letter of Seedburo International Equipment Co. dated 2/21/78 to Tiffany

Exhibit H: Letter of Ferrell-Ross dated 2/20/78 to Tiffany

Exhibit I: Letter of Gustafson, Incorporated dated 2/17/78

Exhibit J: Letter of Universal Industries dated 2/17/78

Exhibit K: Letter of Howe Richardson Scale Company dated 2/20/78 to Tiffany

Exhibit L: Letter of Superior Equipment Manufacturing Co. dated 2/21/78 to Tiffany

(f) Copies of the ten letters (Exhibits C through L) were delivered by Tiffany employees to Grant personnel in early 1978. Grant personnel advised Tiffany that Grant wished to "reconfirm" the representations of the suppliers by having Tiffany address an additional letter to some of the suppliers. Grant wished to ask a representative group of the suppliers whether the purported Purchase Order to each supplier was, indeed, received by the supplier prior to June 30, 1977, and whether the material supposedly ordered by the Purchase Order had, indeed, been held for Tiffany's account and continued to be so held. A draft of such a confirmation letter was prepared. On or about March 13, 1978, Defendant Kahn, knowing that the representations in said letter (if signed and returned by the suppliers) were false, and intending to defraud and mislead Grant,

caused six (6) letters (Exhibits M through R attached and incorporated herein) to suppliers to be typed on Tiffany letterhead. Defendant Kahn and other Tiffany personnel acting on behalf of Tiffany, having devised a scheme or artifice to defraud, caused to be placed in a post office or authorized depository for mail matter, to be delivered by the U.S. Post Office Department, said six letters (Exhibits M through R). Each such letter contained false and fraudulant statements, and said letters were placed in the mail, addressed to the suppliers as addressees, with the intent by Tiffany to induce each addressee to sign such letter and return the same to Grant and thus to aid and assist Tiffany in defrauding Grant. Tiffany caused said letters to be mailed for the purpose of executing a scheme to defraud Grant and to induce Grant to "sign off" on the Nigerian sale, that is, to certify the sale as a sale and to aid Tiffany in issuing false, fraudulent and misleading financial statements which would distort Tiffany's actual earnings or losses.

(g) Each of the six mailings (Exhibits M through R) wherein Tiffany caused a confirmation to be mailed, is a separate and additional violation of 18 USC 1341 (mail fraud) and each such violation is a part of a pattern of racketeering activity carried out by Tiffany in the conduct of its affairs.

(h) Upon information and belief, Grant alleges that after the six letters (Exhibits M through R) described in sub-paragraphs (f) and (g) were received by the various suppliers, one or more of said suppliers communicated to Tiffany a refusal or reluctance to sign and return the confirmation letter, since at least portions of the statements each supplier was asked to "confirm" was false. At various times (the specific instances presently unknown to Grant) officers and employees of Tiffany, having devised a scheme or artifice to defraud Grant by means of false and fraudulent representations (as heretofore described) and for the purpose of executing such scheme or artifice, transmitted or caused to be transmitted by means of wire (telephone) in interstate commerce messages regarding said letters (Exhibits M

through R) and fraudulent requests that one or more of said suppliers sign and return said confirmations. Each such telephone or other wire communication is a separate violation of 18 USC 1343 (wire fraud).

(i) Having devised a scheme or artifice to defraud (as heretofore described), and for the purpose of executing such scheme or artifice, officers and agents of Tiffany induced the suppliers identified in Exhibits M to R to sign said letters and further caused said letters to be addressed to Grant and to be placed in a post office or authorized depository or mail matter, to be delivered by the U.S. Post Office Department. Each of the six instances aforesaid, wherein Tiffany caused said letters to be mailed to Grant, is a separate and additional violation of 18 U.S.C. 1341 (mail fraud) and each such violation is a part of a pattern of racketeering activity carried out by Tiffany in the conduct of its affairs. Tiffany caused said confirmations to be mailed to Grant for the purpose of executing a scheme to defraud Grant and to induce Grant to "sign off" on the Nigerian sale, that is, to certify the sale as a sale and to aid Tiffany in issuing false and fraudulent financial statements which would distort Tiffany's actual earnings and losses.

(j) In early 1978, questions were raised by Grant as to whether the Government of Nigeria (the alleged purchaser, sometimes referred to as the "Bendel food Production Board") had made arrangements so as to provide Tiffany sufficient assurance that amounts due Tiffany under the purported Nigerian sale would be paid. Defendant Kahn and other Tiffany officers and employees represented to Grant that "financing" had been arranged, and that a consortium of banks in Nigeria had made commitments to loan the Purchaser sufficient funds to make full payment to Tiffany for products sold under the Nigerian sale. As purported proof of said financing commitments, defendant Kahn, acting in behalf of defendant Tiffany, delivered to Grant the following documents (marked as follows and incorporated herein):

Exhibit S: Letter dated 3/9/78 to Tiffany, from W. J. Anukpe, Chairman/Managing Director, New Nigeria Bank Ltd. (the "Anukpe letter").

Exhibit T: Letter dated 3/20/78 to Tiffany, from M. Insole, Principal Manager, Standard Bank Nigeria Limited (the "Insole letter").

Defendant Kahn represented to Grant that Exhibits S and T had been received by Tiffany from the Nigerian banks designated in said exhibits, and further represented that by virtue of said letters and other assurances given Kahn by the banks and by the Purchaser, payment in full under the Nigerian sale was assured.

(k) The representations made by defendant Kahn and by other Tiffany employees as described in subparagraph (j) were false and fraudulent and known to be so when made:

(1) The Anukpe letter, Exh. S, is a forgery, the purported signature having been forged by defendant Kahn or some other Tiffany officer or employee acting in Tiffany's behalf.

(2) The Anukpe letter, Exh. S, although represented as having been typed and prepared in Nigeria, was in fact typed at Tiffany's offices in St. Louis County, Missouri by defendant Martin or some other Tiffany officer or employee acting in Tiffany's behalf.

(3) The Insole letter, Exh. T, although represented as having been typed and prepared in Nigeria, was in fact typed at Tiffany's offices on the same Tiffany typewriter used to type the forged Anukpe letter.

(4) Upon information and belief, Grant alleges that the Insole letter is a forgery.

(l) Upon information and belief, Grant further alleges:

(1) At various times (the specific instances presently unknown to Grant), officers and employees of Tiffany, or

others acting in Tiffany's behalf, having devised a scheme or artifice to defraud Grant by means of false and fraudulent representations (as heretofore described) and for the purpose of executing such scheme or artifice, placed (or caused to be placed) in a post office or authorized depository for mail matter, to be sent or delivered by the U.S. Post Office Department, one or both of the fictitious, spurious and fraudulent documents (Exhs. S and T); in violation of 18 U.S.C. 1341 (mail fraud).

(2) At various times (the specific instances presently unknown to Grant), officers and employees of Tiffany, or others acting in Tiffany's behalf, having devised a scheme or artifice to defraud Grant by means of false and fraudulent representations (as heretofore described) and for the purpose of executing such scheme or artifice, transmitted or caused to be transmitted by means of wire (telephone) and by telex in interstate or foreign commerce the contents or substance of the contents of Exhs. S and T, in violation of 18 U.S.C. 1943 (wire fraud).

(m) In a false and fraudulent attempt to "pressure" Grant into certifying the Nigerian sale as a sale, Tiffany engaged the services of four independent public accounting firms and furnished to said firms the fictitious, spurious and fraudulent documents (Exhs. S and T) and other false, misleading and fraudulent materials. Tiffany intended, by such fraudulent actions, to persuade said accounting firms to render opinions to the effect that the Nigerian sale should be recognized, and thus to coerce Grant to render such opinion. Based upon the false representations made to said firms, they did indeed render such opinions. Upon information and belief, Grant further alleges:

(1) At various times (the specific instances presently unknown to Grant), officers and employees of Tiffany, or others acting in Tiffany's behalf, having devised a scheme or artifice to defraud Grant by means of false and fraudulent representations (as heretofore alleged), and for

the purpose of executing such scheme or artifice, placed or caused to be placed in a post office or authorized depository for mail matter, to be sent or delivered by the U.S. Post Office Department, and transmitted by wire or telex in interstate or foreign commerce, false and fraudulent communications to said accounting firms and to others, in violation of 18 U.S.C. 1341 (mail fraud) and 18 U.S.C. 1943 (wire fraud).

19. Throughout the course of the audit by Grant of Tiffany's books and records for 1977, Tiffany officers, agents and employees (or others acting in Tiffany's behalf) impeded and obstructed the ordinary course of the audit and engaged in a conspiracy to conceal relevant facts from Grant and to defraud and mislead Grant. As the result of such conspiratorial and fraudulent conduct, the time required by Grant personnel to conduct the audit was substantially enlarged over the time which would have been required had Tiffany not engaged in such conduct. Tiffany was well aware that the charges by Grant to Tiffany for audit services would be based upon the time spent by Grant personnel. In further perpetration of this fraudulent and criminal conspiracy, Tiffany attempted to induce Grant to complete its audit and certify Tiffany's fraudulent transactions first by withholding payment; then, when the fraudulent and criminal conduct was disclosed, Tiffany sought to conceal said conduct by promising to pay Grant in full.

20. Had Grant been aware of the activities of defendants as above alleged, it would not have performed any accounting services for Tiffany in connection with the 1977 audit. As a result of the fraudulent conduct of defendants as described above, none of which was known or disclosed to Grant, the personnel of Grant continued to perform accounting services for defendant, all to Grant's injury to its business and property.

21. Through late April, 1978, defendants attempted to conceal (and are continuing to conceal) their fraudulent and unlawful acts. In late April, 1978 when Grant confirmed that

defendants had used forged and fictitious documents in an attempt to defraud Grant and in a further attempt to publish misleading and fraudulent financial reports, Grant promptly advised Tiffany and its counsel that Grant would report its findings to the SEC as required by SEC Regulations. Following said report, the SEC commenced an intensive investigation of Tiffany; said investigation is still pending. Following Grant's report to the SEC, Tiffany terminated Grant and refused to pay Grant for its services.

22. As the result of the SEC investigation, which was necessitated by and resulted directly from the unlawful and fraudulent actions of defendants, Grant has incurred substantial expense in responding to SEC subpoenas and requests for documents, interviews, the giving of testimony, counsel fees related to same, and other related expenses.

23. As a further result of the unlawful and fraudulent actions of defendants and their continued effort to conceal such actions, Grant has been damaged in its reputation as a national independent public accounting firm. Defendant Tiffany has issued misleading public statements to the effect that Tiffany's problems do not involve violations of law but instead are little more than "disputes" with its former auditors (Grant).

24. In furtherance of its fraudulent and unlawful actions, Tiffany (beginning in early May, 1978) promised to pay Grant all fees owed (totaling $258,000), whereas Tiffany intended not to pay Grant at all, but to induce Grant to limit its responses to the SEC and to lend its reputation to representations made to the SEC by Defendants.

25. As the result of the foregoing, Grant has been damaged in the sum of $1,500,000.

WHEREFORE, plaintiffs (Grant) prays judgment against defendants under Count I in the sum of $1,500,000; further, in accord with 18 U.S.C. 1964(c), that said award of damages be

trebled, and that plaintiffs further recover the costs of this action and reasonable attorney's fees.

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and

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APPENDIX E

RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT

18 U.S.C. §§1961-1968

§1961. Definitions

As used in this chapter—

(1) "racketeering activity" means (A) any act or threat involving murder, kidnapping, gambling, arson, robbery, bribery, extortion, or dealing in narcotic or other dangerous drugs, which is chargeable under State law and punishable by imprisonment for more than one year, (B) any act which is indictable under any of the following provisions of title 18, United States Code: Section 201 (relating to bribery), section 224 (relating to sports bribery), sections 471, 472, and 473 (relating to counterfeiting), section 659 (relating to theft from interstate shipment) if the act indictable under section 659 is felonious, section 664 (relating to embezzlement from pension and welfare funds), sections 891-894 (relating to extortionate credit transactions), section 1084 (relating to the transmission of gambling information), section 1341 (relating to mail fraud), section 1343 (relating to wire fraud), section 1503 (relating to obstruction of justice), section 1510 (relating to obstruction of criminal investigations), section 1511 (relating to the obstruction of State or local law enforcement), section 1951 (relating to interference with commerce, robbery, or extortion), section 1952 (relating to racketeering), section 1953 (relating to interstate transportation of wagering paraphernalia), section 1954 (relating to unlawful welfare fund payments), section 1955 (relating to the prohibition of illegal gambling businesses), sections 2314 and 2315 (relating to interstate transportation of stolen property), sections 2421-24 (relating to white slave traffic), (C) any act which is indictable under title 29, United States Code, section 186 (dealing with restrictions on payments and loans to labor

organizations) or section 501(c) (relating to embezzlement from union funds), or (D) any offense involving bankruptcy fraud, fraud in the sale of securities, or the fellonious manufacture, importation, receiving, concealment, buying, selling, or otherwise dealing in narcotic or other dangerous drugs, punishable under any law of the United States;

(2) "State" means any State of the United States, the District of Columbia, the commonwealth of Puerto Rico, any territory or possession of the United States, any political subdivision, or any department, agency, or instrumentality thereof;

(3) "person" includes any individual or entity capable of holding a legal or beneficial interest in property;

(4) "enterprise" includes any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity.

(5) "pattern of racketeering activity" requires at least two acts of racketeering activity, one of which occurred after the effective date of this chapter and the last of which occurred within ten years (excluding any period of imprisonment) after the commission of a prior act of racketeering activity;

(6) "unlawful debt" means a debt (A) incurred or contracted in gambling activity which was in violation of the law of the United States, a State or policial subdivision thereof, or which is unenforceable under State or Federal law in whole or in part as to principal or interest because of the laws relating to usary, and (B) which was incurred in connection with the business of gambling in violation of the law of the United States, a State or political subdivision thereof, or the business of lending money or a thing of value at a rate usurious under State or Federal law, where the usurious rate is at least twice the enforceable rate;

(7) "racketeering investigator" means any attorney or investigator so designated by the Attorney General and charged with the duty of enforcing or carrying into effect this chapter;

(8) "racketeering investigation" means any inquiry conducted by any racketeering investigator for the purpose of ascertaining whether any person has been involed in any violation of this chapter or of any final order, judgment, or decree of any court of the United States, duly entered in any case or proceeding arising under this chapter.

(9) "documentary material" includes any book, paper, document, record, recording, or other material; and

(10) "Attorney General" includes the Attorney General of the United States, the Deputy Attorney General of the United States, any Assistant Attorney General of the United States, or any employee of the Department of Justice or any employee of any department or agency of the United States so designated by the Attorney General to carry out the powers conferred on the Attorney General by this chapter. Any department or agency so designated may use in investigations authorized by this chapter either the investigative provisions of this chapter or the investigative power of such department or agency otherwise conferred by law.

§ 1962. Prohibited activities

(a) It shall be unlawful for any person who has received any income derived, directly or indirectly, from a pattern of racketeering activity or through collection of an unlawful debt in which such person has participated as a principal within the meaning of section 2, title 18, United States Code, to use or invest, directly or indirectly, any part of such income, or the proceeds of such income, in acquisition of any interest in, or the establishment or operation of, any enterprise which is engaged in, or the activities of which affect, interstate or foreign commerce. A purchase of securities on the open market for purposes of investment, and without the intention of controlling or participating in the control of the issuer, or of assisting another to do so, shall not be unlawful under this subsection if the securities of the issuer held by the purchaser, the members of his

immediate family, and his or their accomplices in any pattern or racketeering activity or the collection of an unlawful debt after such purchase do not amount in the aggregate to one percent of the outstanding securities of any one class, and do not confer, either in law or in fact, the power to elect one or more directors of the issuer.

(b) It shall be unlawful for any person through a pattern of racketeering activity or through collection of an unlawful debt to acquire or maintain, directly or indirectly, any interest in or control of any enterprise which is engaged in, or the activities of which affect, interstate or foreign commerce.

(c) It shall be unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise's affairs through a pattern of racketeering activity or collection of unlawful debt.

(d) It shall be unlawful for any person to conspire to violate any of the provisions of subsections (a), (b), or (c) of this section.

§1963. Criminal penalties

(a) Whoever violates any provision of section 1962 of this chapter shall be fined not more than $25,000 or imprisoned not more than twenty years, or both, and shall forfeit to the United States (1) any interest he has acquired or maintained in violation of section 1962, and (2) any interest in, security of, claim against, or property or contractual right of any kind affording a source of influence over, any enterprise which he has established, operated, controlled, conducted, or participated in the conduct of, in violation of section 1962.

(b) In any action brought by the United States under this section, the district courts of the United States shall have jurisdic-

tion to enter such restraining orders or prohibitions, or to take such other actions, including, but not limited to, the acceptance of satisfactory performance bonds, in connection with any property or other interest subject to forfeiture under this section, as it shall deem proper.

(c) Upon conviction of a person under this section, the court shall authorize the Attorney General to seize all property or other interest declared forfeited under this section upon such terms and conditions as the court shall deem proper. If a property right or other interest is not exercisable or transferable for value by the United States, it shall expire, and shall not revert to the convicted person. All provisions of law relating to the disposition of property, or the proceeds from the sale thereof, or the remission or mitigation of forfeitures for violation of the customs laws, and the compromise of claims and the award of compensation to informers in respect of such forfeitures shall apply to forfeitures incurred, or alleged to have been incurred, under the provisions of this section, insofar as applicable and not inconsistent with the provisions hereof. Such duties as are imposed upon the collector of customs or any other person with respect to the disposition of property under the customs laws shall be performed under this chapter by the Attorney General. The United States shall dispose of all such property as soon as commercially feasible, making due provision for the rights of innocent persons.

§1964. Civil remedies

(a) The district courts of the United States shall have jurisdiction to prevent and restrain violations of section 1962 of this chapter by issuing appropriate orders, including, but not limited to: ordering any person to divest himself of any interest, direct or indirect, in any enterprise; imposing reasonable restrictions on the future activities or investments of any person, including, but not limited to, prohibiting any person from engaging in the same type of endeavor as the enterprise engaged in, the activities

of which affect interstate or foreign commerce; or ordering dissolution or reorganization of any enterprise, making due provision for the rights of innocent persons.

(b) The Attorney General may institute proceedings under this section. In any action brought by the United States under this section, the court shall proceed as soon as practicable to the hearing and determination thereof. Pending final determination thereof, the court may at any time enter such restraining orders or prohibitions, or take such other actions, including the acceptance of satisfactory performance bonds, as it shall deem proper.

(c) Any person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor in any appropriate United States district court and shall recover threefold the damages he sustains and the cost of the suit, including a reasonable attorney's fee.

(d) A final judgment or decree rendered in favor of the United States in any criminal proceeding brought by the United States under this chapter shall estop the defendant from denying the essential allegations of the criminal offense in any subsequent civil proceedings brought by the United States.

§1965. Venue and process

(a) Any civil action or proceeding under this chapter against any person may be instituted in the district court of the United States for any district in which such person resides, is found, has an agent, or transacts his affairs.

(b) In any action under section 1964 of this chapter in any district court of the United States in which it has shown that the ends of justice require that other parties residing in any other district be brought before the court, the court may cause such parties to be summoned, and process for that purpose may be served in any judicial district of the United States by the marshal thereof.

(c) In any civil or criminal action or proceeding instituted by the United States under this chapter in the district court of the United States for any judicial district, subpoenas issued by such court to compel the attendance of witnesses may be served in any other judicial district, except that in any civil action or proceeding no such subpoena shall be issued for service upon any individual who resides in another district at a place more than one hundred miles from the place at which such court is held without approval given by a judge of such court upon a showing of good cause.

(d) All other process in any action or proceeding under this chapter may be served on any person in any judicial district in which such person resides, is found, has an agent, or transacts his affairs.

§1966. Expedition of actions

In any civil action instituted under this chapter by the United States in any district court of the United States, the Attorney General may file with the clerk of such court a certificate stating that in his opinion the case is of general public importance. A copy of that certificate shall be furnished immediately by such clerk to the chief judge or in his absence to the presiding district judge of the district in which such action is pending. Upon receipt of such copy, such judge shall designate immediately a judge of that district to hear and determine action. The judge so designated shall assign such action for hearing as soon as practicable, participate in the hearings and determination thereof, and cause action to be expedited in every way.

§1967. Evidence

In any proceeding ancillary to or in any civil action instituted by the United States under this chapter the proceedings may be open or closed to the public at the discretion of the court after consideration of the rights of affected persons.

§1968. Civil investigative demand

(a) Whenever the Attorney General has reason to believe that any person or enterprise may be in possession, custody, or control of any documentary materials relevant to a racketeering investigation, he may, prior to the institution of a civil or criminal proceeding thereon, issue in writing, and cause to be served upon such person, a civil investigation demand requiring such person to produce such material for examination.

(b) Each such demand shall —

(1) state the nature of the conduct constituting the alleged racketeering violation which is under investigation and the provision of law applicable thereto;

(2) describe the class or classes of documentary material produced thereunder with such definiteness and certainty as to permit such material to be fairly identified;

(3) state that the demand is returnable forthwith or prescribe a return date which will provide a reasonable period of time within which the material so demanded may be assembled and made available for inspection and copying or reproducing; and

(4) identify the custodian to whom such material shall be made available.

(c) No such demand shall —

(1) contain any requirement which would be held to be unreasonable if contained in a subpena duces tecum issued by a court of the United States in aid of a grand jury investigation of such alleged racketeering violation; or

(2) require the production of any documentary evidence which would be privileged from disclosure if demanded by a subpena duces tecum issued by a court of the Untied States in aid of a grand jury investigation of such alleged racketeering violations.

(d) Service of any such demand or any petition filed under this section may be made upon a person by —

(1) delivering a duly executed copy thereof to any partner, executive officer, managing agent, or general agent thereof, or to any agent thereof authorized by appointment or by law to receive service of process on behalf of such persons, or upon any individual person;

(2) delivering a duly executed copy thereof to the principal office or place of business of the person to be served; or

(3) depositing such copy in the United States mail, by registered or certified mail duly addressed to such person at its principal office or place of business.

(e) A verified return by the individual serving any such demand or petition setting forth the manner of such service shall be prima facie proof of such service. In the case of service by registered or certified mail, such return shall be accompanied by the return post office receipt of delivery of such demand.

(f)(1) The Attorney General shall designate a racketeering investigator to serve as a racketeer document custodian, and such additional racketeering investigators as he shall determine from time to time to be necessary to serve as deputies to such officer.

(2) Any person upon whom any demand issued under this section has been duly served shall make such material available for inspection and copying or reproduction to the custodian designated therein at the principal place of business of such person, or at such other place as such custodian and such person thereafter may agree and prescribe in writing or as the court may direct, pursuant to this section on the return date specified in such demand, or on such later date as such custodian may prescribe in writing. Such person may upon written agreement between such person and the custodian substitute for copies of all or any part of such material originals thereof.

(3) The custodian to whom any documentary material is so delivered shall take physical possession thereof, and shall be responsible for the use made thereof and for the return thereof pursuant to this chapter. The custodian may cause the preparation of such copies of such documentary material as may be required for official use under regulations which shall be promulgated by the Attorney General. While in the possession of the custodian, no material so produced shall be available for examination, without the consent of the person who produced such material, by any individual other than the Attorney General. Under such reasonable terms and conditions as the Attorney General shall prescribe, documentary material while in the possession of the custodian shall be available for examination by the person who produced such material or any duly authorized representatives of such person.

(4) Whenever any attorney has been designated to appear on behalf of the United States before any court or grand jury in any case or proceeding involving any alleged violation of this chapter, the custodian may deliver to such attorney such documentary material in the possession of the custodian as such attorney determines to be required for use in the presentation of such case or proceeding on behalf of the United States. Upon the conclusion of any such case or proceeding, such attorney shall return to the custodian any documentary material so withdrawn which has not passed into the control of such court or grand jury through the introduction thereof into the record of such case or proceeding.

(5) Upon the completion of —

(i) the racketeering investigation for which any documentary material was produced under this chapter, and

(ii) any case or proceeding arising from such investigation, the custodian shall return to the person who produced such material all such material other than copies thereof

made by the Attorney General pursuant to this subsection which has not passed into the control of any court or grand jury through the introduction thereof into the record of such case or proceeding.

(6) When any documentary material has been produced by any person under this section for use in any racketeering investigation, and no such case or proceeding arising therefrom has been instituted within a reasonable time after completion of the examination and analysis of all evidence assembled in the course of such investigation, such person shall be entitled, upon written demand made upon the Attorney General, to the return of all documentary material other than copies thereof made pursuant to this subsection so produced by such person.

(7) In the event of the death, disability, or separation from service of the custodian of any documentary material produced under any demand issued under this section or the official relief of such custodian from responsibility for the custody and control of such material, the Attorney General shall promptly—

(i) designate another racketeering investigator to serve as custodian thereof, and

(ii) transmit notice in writing to the person who produced such material as to the identity and address of the successor so designated.

Any successor so designated shall have with regard to such materials all duties and responsibilities imposed by this section upon his predecessor in office with regard thereto, except that he shall not be held responsible for any default or dereliction which occurred before his designation as custodian.

(g) Whenever any person fails to comply with any civil investigative demand duly served upon him under this section or whenever satisfactory copying or reproduction of any such material cannot be done and such person refuses to surrender such material, the Attorney General may file, in the district court of the United States for any judicial district in which such

person resides, is found, or transacts business, and serve upon such person a petition for an order of such court for the enforcement of this section, except that if such person transacts business in more than one such district such petition shall be filed in the district in which such person maintains his principal place of business, or in such other district in which such person transacts business as may be agreed upon by the parties to such petition.

(b) Within twenty days after the service of any such demand upon any person, or at any time before the return date specified in the demand, whichever period is shorter, such person may file, in the district court of the United States for the judicial district within which such person resides, is found, or transacts business, and serve upon such custodian a petition for an order of such court modifying or setting aside such demand. The time allowed for compliance with the demand in whole or in part as deemed proper and ordered by the court shall not run during the pendency of such petition in the court. Such petition shall specify each ground upon which the petitioner relies in seeking such relief, and may be based upon any failure of such demand to comply with the provisions of this section or upon any constitutional or other legal right or privilege of such person.

(i) At any time during which any custodian is in custody or control of any documentary material delivered by any person in compliance with any such demand, such person may file, in the district court of the United States for the judicial district within which the office of such custodian is situated, and serve upon such custodian a petition for an order of such court requiring the performance by such custodian of any duty imposed upon him by this section.

(j) Whenever any petition is filed in any district court of the United States under this section, such court shall have jurisdiction to hear and determine the matter so presented, and to enter each order or orders as may be required to carry into effect the provisions of this section.

APPENDIX F

Petitioner's Subsidiary and Affiliated Companies

Tiffany Industries, Inc. is the parent company of the following wholly-owned subsidiary corporations:

Centralia Container Corp., d/b/a "Concen Corp."

Modulo 3 Inc.

Tiffany Industries Americus Corp.

Tiffany Industries Americas, S.A., Inc.
(a wholly-owned subsidiary of Tiffany Americus Corp.)

Tiffany Industries Americas, C.A., Inc.
(a wholly-owned subsidiary of Tiffany Americus Corp.)

Tiffany Industries Americus, Ltd.
(a wholly-owned subsidiary of Tiffany Industries Americas, C.A., Inc.)

TRULOCK Machinery Fair, Inc.

TRULOCK Southern, Inc.

Vuetech Corp.